Agenda – Executive Policy Committee – June 13, 2018

REPORTS

Item No. 7 Multi-year Budgeting

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the Public Service be directed to initiate a process to implement a multi-year budget approach effective for the 2020 budget year, with a particular focus on addressing the structural deficit in tax-supported City operations.

2. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: Multi-year Budgeting

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Ruta	M. Ruta	M. Ruta	D. McNeil

EXECUTIVE SUMMARY

Multi-year budgeting is considered a best practice by the Government Finance Officers Association (GFOA) and has been embraced by several Canadian municipalities. It is a practice applicable to both operating and capital budgets as well as tax-supported and utility rate-based operations. A multi-year operating budget is a document that authorizes a government's planned expenditures and anticipated revenues for two or more consecutive budgetary years. The advantages of multi-year budgeting include improved financial management, long-range strategic planning, and reduced staff time associated with budget preparation. One disadvantage of this approach might be the perceived loss of budgetary control and oversight at Council. Dependent on timing, this practice may also commit a newly elected Council to priorities set by previous Councils. However in response, Council will still approve budgets annually and direct revisions as required.

Unlike other municipalities who have implemented multi-year budgeting, the City of Winnipeg has a structural deficit in the tax-supported operating budget and much time is spent annually by both the Public Service and elected officials in determining options to balance. The City cannot continue in this direction without seriously diminishing its financial ability to deliver service to its citizens. In this regard moving towards a multi-year budget will provide citizens with greater long term certainty concerning City taxes and fees as well as clarity regarding service levels.

The City currently has a balanced, 6 year capital program. The first year is adopted by Council, and five forecast years are adopted in principal, and revisited each year. There are no changes being recommended in this regard. Likewise, the City has a practice to approve a multi-year utility rate funding plan to address utility needs. This multi-year rate plan will allow for a fairly seamless transition to a multi-year operating budget for utility operations. A multi-year, tax-supported operating budget would permit Council to set the course for fiscal decisions by balancing the next four years of tax-supported budgets but still adopt both operating and capital budgets on an annual basis. The Public Service would review tax-supported budget projections annually and propose adjustments as required for Council approval. As a result a majority of decisions concerning budgets for the next four years are made by Council at the beginning of its mandate.

The Public Service is proposing to adopt multi-year tax-supported budgeting effective for the 2020 budget year. During 2019, the Public Service would prepare reports recommending strategic decisions in key areas to assist Council in resolving the structural operating deficit.

RECOMMENDATIONS

1. That the Public Service be directed to initiate a process to implement a multi-year budget approach effective for the 2020 budget year, with a particular focus on addressing the structural deficit in tax-supported City operations.

2. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approved the 2018 Operating and Capital budgets (Volume 2 and 3) on December 12, 2017. Recommendation 1(U) from Volume 2 of the 2018 Operating budget states "That the Chief Financial Officer conduct a review of multi-year budgeting techniques, including best practices in other jurisdictions, to address the tax-supported structural deficit with a view to recommending an approach to balance the tax-supported budget for a multi-year period."

IMPLICATIONS OF THE RECOMMENDATIONS

By approving the recommendation, the Public Service will initiate a process of commencing necessary preparations to implement a multi-year budget approach effective for the 2020 budget year.

HISTORY/DISCUSSION

A. The following excerpts have been taken from a Government Finance Officers Association (GFOA) publication entitled "An Elected Official's Guide to Multi-Year Budgeting" by Salomon Guajardo, Copyright 2000 (Chicago: Government Finance Officers Association, November, 2006).

What is a multi-year budget?

A multi-year budget is a document that authorizes a government's appropriations (i.e., planned expenditures) and anticipated revenues for two or more consecutive budgetary years. This document may be a biennial budget, a three-year budget, or a five-year budget. A multi-year budget also may consist of a biennial budget with one or two financial plans that serve as the tentative spending plans for the out-years (i.e., the first year appropriations are formally adopted, whereas the subsequent year ''appropriations'' are not).

How does a multi-year budget differ from an annual budget?

Multi-year budgets differ from annual budgets in that appropriations and revenues are detailed for two or more separate budgetary periods. Annual budgets are spending documents that detail

a government's appropriations and revenues for only one 12-month period.

What are the common types of multi-year budgets used by governments?

The common types of multi-year budgets used by governments are as follows:

1. The rolling multi-year budget is a spending document that has detailed appropriations and anticipated revenues for two or more budgetary periods, but each spending plan is approved individually each year.
2. The ‘‘classic’’ (traditional) multi-year budget is a spending plan that has detailed appropriations and anticipated revenues for two or more budgetary periods. Both the spending plan and the revenue plan for each budgetary year are approved at the same time.

Why do governments implement multi-year budgets?

Governments implement multi-year budgets for several reasons, such as to:

- Improve financial management;
- Improve long-range and strategic planning;
- Improve program monitoring and evaluation;
- Link operating and capital activities and spending;
- Reallocate and redeploy staff to other functions and activities;
- Reduce ‘‘opportunism’’ to increase department, division, and/or unit budget appropriations from year to year; and,
- Reduce staff time dedicated to budget development.

What are the potential disadvantages of producing a multi-year budget? How can they be overcome?

The potential disadvantages of producing a multi-year budget include:

- An unstable local economy may present difficulties in forecasting revenues and expenditures;
- Legislative acts and resolutions may be needed to accommodate multi-year budgeting;
- Legislative bodies may perceive a loss of budgetary control and oversight;
- Projecting expenditures and revenues may be difficult for some departments, divisions, and/or units;
- The audit function may need to be expanded;
- The budget process may need to incorporate new policies and processes;
- The multi-year budget may not take into account ongoing economic and environmental changes; and,
- Transitioning from an annual budget to a multi-year budget may foster staff turnover by increasing the workload of the budget staff during the first year of the multi-year budget.

Governments can safeguard themselves from these potential disadvantages by:

- Amending existing financial and budget policies and procedures;
- Assessing the local economic environment by examining key economic and fiscal indicators;
- Conducting an analysis of the existing revenue structure;
- Updating the budget manual to reflect the changes in the budget processes;
- Documenting and specifying the underlying economic assumptions;
- Effectively communicating the need for a multi-year budget with key stakeholders;
- Establishing a budget review process for ensuring compliance with budget polices, processes, and targets;

- Linking the multi-year budget with the strategic plan, long-range financial plan and revenue forecast, and financial and budgetary policies; and,
- Preparing budget staff in advance regarding implementation of the multi-year budget.

What basic policy statements are contained in multi-year budgets?

Like annual budgets, multi-year budget documents consist of the following policy statements:
- Appropriation limitation;
- Budget amendment and review policy;
- Budget process and calendar;
- Comprehensive financial policies:
  - Capital budgeting, projects, expenditures, and funding;
  - Expenditure management (e.g., gap closing initiatives) and forecasting;
  - Debt issuance policy relating to capital projects, general fund, and special revenue funds;
  - Grants administration, management, forecasting, and planning;
  - Reporting; and,
  - Revenue analysis and forecasting methodology;
- Departmental strategic plans for achieving goals and objectives;
- Fiscal and budgetary control (i.e., carryovers, transfers);
- Government-wide program and service goals and objectives;
- Investment policy and strategy;
- Long-term debt policy;
- Long-term financial plan (i.e., revenue, expenditure, and programmatic planning and initiatives for 5, 10, 15, or 20 years into the future);
- Multi-year budget policies and procedures;
- Revenue analysis, forecast, and trends; and,
- Revenue source descriptions.

What are the underlying expenditure assumptions of multi-year budgets?

There are four basic expenditure assumptions made in multi-year budgeting. They are:
- Expenditures will change incrementally over time;
- Expenditures are manageable and easily controlled;
- Expenditures are predictable; and,
- Extraordinary events will not occur on a regular basis.

What are the underlying revenue assumptions of multi-year budgets?

Because multi-year budgets appropriate funds over two or more budgetary periods, the revenue structure assumptions are:
- Revenues and user fees/charges are predictable;
- The local and regional economy is stable;
- The revenue structure and base are reliable; and,
- There is a general consensus on revenue projections.

The rationale for making the transition from an annual budget to a multi-year budget includes:
- Greater emphasis on management and service delivery;
- Greater emphasis on program evaluation and monitoring;

- Improved long-term planning;
- Redeployment of human resources to activities other than budget preparation; and,
- Reduction in staff time spent on budget development.

B. Legislative Authority

Noted below is an excerpt from Section 284 (1) from the City of Winnipeg Charter concerning the annual operating budget.

> Annual operating budget
> 284(1) Before March 31 of each fiscal year, or such later day in the year as may be fixed for that year by the Lieutenant Governor in Council for the purposes of this section, council must adopt an operating budget for that year.

The City would interpret this section to permit a rolling multi-year budget scenario as described above where the City can adopt a multi-year budget in principle but still approve annual budgets. Many Canadian cities have adopted this same practice.

> Capital budget and forecast
> 284(2) Before December 31 of each fiscal year, council must adopt a capital budget for that year and a capital forecast for the next five fiscal years.

The City adopts a capital budget for the year and the next five years in principle.

C. Current City budget practices

City budgets have evolved over the years reflecting changing trends and best practices.

- Prior to 2007 the operating budget was presented by department with specific account detail reflecting both Revenue and Expense.
- On October 19, 2005, Executive Policy Committee requested the CAO provide a service based budget report including defined service-based reporting concepts, and an overview of each municipal service area including its goals, strategies, and performance information based on effectiveness and efficiencies. The service-based operating budget was rolled out in 2007 and adopted by Council on March 20, 2007. The service-based format has been used annually since 2007 and includes 37 service areas aligned under Council standing committees. In addition, there are over 120 sub-services reported in the budget. The service-based operating budget includes the following information:
  - Operating and capital budget recommendations
  - A summary of budget results for all services including tax supported utilities and Special Operating Agencies (SOA). The summary page incorporates total revenue and costs together with Full time equivalent (FTE) positions in each service area.
  - Information for each service aligned to Council's standing committees including:
    - A general description of services
    - Key goals
    - Service Level statistics over a three year period
    - Comparative actual, budget and variance information including projections for the following two years divided by key revenues and expenses. Changes in FTE's are also included

- Included in the Appendices is:
  - A traditional view of the tax supported operating budget summarizing revenues and expenses by department compared to previous years and projecting forward for two years. Attached to this summary are detailed explanations concerning variances. A similar analysis is provided for utility operations and SOA's.
  - A listing of grants and payments on a comparative basis.
  - A listing of reserve balances including forecasts to year-end and estimated balances for the budget year.
  - Tax-supported transfer from other funds.
  - Transfer to capital reconciliation and other supporting schedules.
  - Tax supported savings transferred to the regional streets renewal program.
  - Fees and charges schedule relating to increases greater than inflation.
  - Consolidated budget schedules supporting budgets included on the City's financial statements.
  - Capital projects schedule
  - Services based budget with services by Policy area (attached).
- Capital budgets have been prepared in a very similar format over the years and have not changed significantly.
- Over the past few years the City has engaged the Public in discussions concerning the budget. Information obtained from public engagement strategies and surveys has been used to provide useful input in preparing budget documents.
- In 2015 the City introduced Volume 1 – Community Trends and Performance Report which provides performance measurement information by service area and community economic and financial trends. Completion of this document offers further information useful to departments in preparing their budgets.
- Over the last few years the City has been preparing its operating and capital budgets together reflecting how closely integrated the capital program is to operations. In the year when municipal elections are held, the City has generally approved its budget by March 31 of the following year.
- The overall planning document used by departments in designing budgets is Our Winnipeg and the Complete Communities Direction Strategy approved by Council on July 20, 2011. The document provides a 25 year vision for the City. Our Winnipeg is currently under review for revision and presentation to Council in 2019. From a Public Service perspective, departments are involved in various levels of planning and a corporate strategic plan is being contemplated with a view to encouraging consistent planning throughout City departments aligning with Our Winnipeg. Some key Our Winnipeg concepts include:
  - Provide efficient and focused civic administration and governance.
  - Demonstrate visionary civic leadership and commitment to sustainable long-term planning.
  - Develop strategies and budget proposals coordinated through action plans. When adopted by Council, these action plans and budgets will provide clear direction to City departments in the preparation of their service plans, service delivery decisions, and intergovernmental or partnership activities.
- The City has also been actively engaged in the Excellence Canada initiative that promotes best practices in government planning.

Although City budgets provide forecasts for both operating and capital, tax-supported operating budgets reflect a structural deficit which will not be resolved without consideration of longer-term sustainable options. Capital budgets are approved on a multi-year balanced basis but reduced transfers of cash to capital has in part been replaced by additional debt which is not sustainable

in the long-term. Large capital projects requiring significant investment of government funding in the form of grants or debt are not included in the capital budget and represent priority projects requiring further consideration. In preparing for multi-year budgeting in 2020, the City will need to address operating and capital issues. With Council approval, the Public Service will begin preparing strategic reports to assist Council in its deliberations to address operating and capital budget shortfalls.

Appendix 1 of Volume 1 from the 2018 Budget document entitled "Community Trends and Performance Report" provides more history concerning the City's current financial position.

D. Other Canadian municipalities

Excerpts from the City of Saskatoon's report from the Public Service to Council concerning multi-year budgeting entitled – "Budgeting to Make Plans Work or Working to Make a Budget? An Overview of Multi-Year Budgeting" prepared on May 16, 2016.

> "In Canada, the approach to multi-year budgeting at the municipal level varies considerably. For example, some cities, such as Calgary, have adopted fully integrated business plans that are supported by multi-year capital and operating budgets. Others, such as Regina, have adopted multi-year capital plans, but annual operating budgets. Finally, the Regional Municipality of York in Ontario has recently adopted multi-year capital and operating budgets, but these are not linked to a corporate business plan.
>
> Despite these variations, cities and municipalities in Canada are increasingly adopting the fully integrated framework. For example, in late 2015, the City Councils of Edmonton and London (Ontario) adopted integrated, multi-year capital and operating budgets that are linked to business plans and performance measures. The City of Toronto is in the process of adopting a similar approach.
>
> There are several reasons why cities and municipalities in Canada are utilizing this approach for planning and budgeting. A few of the most prominent are: (1) the integration and alignment with long-term development plans and strategic plans; (2) flexible allocation of resources over time to accomplish goals/objectives; and (3) more efficient use of time and resources as the organization is not in "perpetual budget mode".
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> These, and other benefits, were formally recognized by the Government of Alberta. In 2015, the Alberta Legislature passed Bill 20, the Municipal Government Amendment Act. One important element of this legislation is the requirement that municipalities in the province must prepare multi-year capital and operational plans (or budgets). The legislation still requires the approval of annual budgets, but in the context of a multi-year framework."

E. Multi-year budgeting at the City of Winnipeg

- The City currently has a balanced, 6 year capital program. The first year is adopted by Council, and five forecast years are adopted in principal, and revisited each year. There are no changes being recommended in this regard. Likewise, the City has a practice to approve a multi-year utility rate funding plan to address utility needs. This multi-year rate plan will allow for a fairly seamless transition to a multi-year operating budget for utility operations.
- As noted above the City has a structural tax-supported operating deficit which is estimated to be $85.9m in 2019 and $101m in 2020. The City was able to balance its 2018 budget in

large part by reducing transfers of cash to capital from operating to capital but this is not sustainable in the long-term. Restructuring City finances going-forward will involve difficult choices.

- The City is recommending implementation of a multi-year budget commencing in the 2020 budget year. The Public Service would be seeking Council approval of the 2020 budget and approval in principle of the 2021 to 2023 budgets involving an abbreviated annual review in each of the latter years. If done properly a multi-year budget will straddle election years. For example, the City will be electing its Mayor and Council in October, 2018 and their new term would expire October, 2022. Assuming multi-year budgeting was in place the four year budget cycle would take effect on January 1, 2020, and continue to December 31, 2023. The first year of Council's term in 2019 allows Council to orientate and coordinate priorities which permits Council to avoid significant budget deliberations after the election. The disadvantage of this approach is Council might find it difficult to initiate immediate change to the budgets after an election.
- During the course of 2019, the Public Service will bring forward several reports outlining decisions to be made regarding expenses, revenue, debt and capital. In addition a more expansive report would be prepared setting out details of how the City would roll out multi-year budgeting.
- Multi-year budgeting is tied directly to business planning. The City is currently considering preparation of a Corporate business plan that would integrate with individual departmental business plans and the OurWinnipeg planning document. In this regard a further report would explain how the corporate business plan once complete links to City budgets.
- The recommendation is worded to obtain Council approval for the Public Service to proceed to next steps in terms of the multi-year operating budgeting effort as itemized above. In this manner, the Public Service will be able to commence work on the concept and the prerequisite reports required for consideration and approval next year.
- Moving towards a multi-year budget will provide citizens with greater long term certainty concerning City taxes and fees as well as clarity regarding service levels.

FINANCIAL IMPACT

Financial Impact Statement **Date:** May 10, 2018

Project Name:

Multi-year budgeting

COMMENTS:

There are no immediate financial implications associated with commencing a multi-year budgeting approach. Once fully implemented there may be efficiencies as a result of less staff resources required to prepare annual budgets and supporting documentation but this cannot be assessed until the process is more fully developed.

original signed by
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

Legal Services (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Chief Financial Officer
Prepared by: Mike Ruta
Date: May 30, 2018